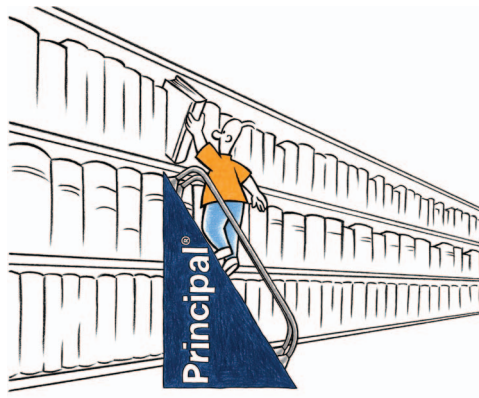


The Principal Financial Group®

Due Diligence Process Quarterly Review



2nd Quarter 2011

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A Resource to Help You Manage Your Fiduciary Responsibility

As a retirement plan sponsor, you have a lot to worry about – from increasing participation to tracking your investment performance. At the Principal Financial Group® (The Principal®), we help you manage your fiduciary responsibilities through our due diligence process.¹

This rigorous process allows us to:

- Identify stable, well-managed investment management firms with top talent.
- Monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.
- Score each investment manager² and its corresponding investment option on a quarterly basis.

Our due diligence quarterly review will help you feel confident in your chosen investment options and their managers. In addition to providing you an overview of our process, we've included updates about the investment options currently on the Watch List. Finally, we've provided you with a profile of each of the investment managers that make up our sub-advised investment program.

Principal Life Insurance Company, as an investment manager, is a fiduciary with regard to the selection, monitoring and retention of the portfolio managers for its Separate Accounts. ERISA imposes on the plan administrator ongoing accountability for the selection and monitoring of those to whom specific fiduciary responsibilities have been delegated or on whom the plan administrator is depending for help in meeting its own fiduciary obligations.

Principal Life is not a fiduciary in the broader context of operating your plan. This discussion is only about our fiduciary responsibility for our Separate Accounts. Standards and expectations for one Separate Account may be different from those for other Separate Accounts.

¹ The due diligence process and reporting are services provided by Principal Life Insurance Company, a member of the Principal Financial Group®.

² The term "manager" or "investment manager" used in this material may refer to an investment advisor or sub-advisor of an underlying mutual fund.



A Unique Approach to Due Diligence from The Principal®

Our proprietary due diligence process provides a rigorous and disciplined framework for identifying, hiring, and retaining premier investment managers within each asset class and investment style for our Sub-Advised Investment Options. It is just one of the ways The Principal can help you manage your fiduciary responsibilities. The process is characterized by our comprehensive and continuous review of investment managers using advanced analytical tools provided by Wilshire Associates, Morningstar®, FactSet and others.

With our unique Investment Manager Selection Policy, we can define a disciplined process for identifying and engaging premier investment management firms. There are a variety of reasons why The Principal might choose to hire a new investment manager. However, in most cases, it is to replace a recently terminated manager, take advantage of a new investment approach, or to add an additional manager to an existing portfolio. We make it our policy to hire experienced managers with the right credentials by asking the right questions and making the right decisions.

We hire the right managers with the right experience and credentials by asking the right questions.

Selection

We have defined a disciplined process for identifying and engaging premier investment management firms within different asset classes and investment styles.

The Right Qualifications

Each manager search is unique depending upon the asset class and investment style targeted and other factors such as whether we are replacing a manager, starting a new investment option, or adding an additional manager to an investment option. Based upon need, our investment professionals may start with a review of the entire universe of institutional managers in an asset class or narrow the focus, for example, to include only firms that are complementary to an existing manager of an investment option. In some cases such as corporate acquisitions or new product development, our investment professionals are validating proposed managers rather than conducting a full search. In all cases, however, managers are evaluated based upon a large number of in-depth qualitative and performance-oriented factors.

Our initial screening process relies heavily on objective measures such as the firm and product track record and performance, but also incorporates many subjective judgments such as the consistency of the investment process.

“We’re here to help you manage your fiduciary obligations. We know you must continuously monitor the investment options chosen to help ensure they’re the best for your plan. That’s why we’ve created this Quarterly Review.”

Michael Finnegan, CFA, Vice President, Investment Services, The Principal Financial Group

We typically review each of the following criteria. The weight given to each of these criteria varies from search to search, but our goal is to focus on investment managers with strong overall profiles.

Selection Criteria	
Firm Track Record	Length of time firm has been in existence. In addition, the firm should have a strong reputation of integrity.
Product Track Record	Length of time the investment strategy has been in existence.
Assets Under Management	The size of our portfolio relative to the investment strategy’s total assets should be reasonable.
Style	Each investment strategy should meet our needs in regards to investment style, sector, region or asset class.
Open/Minimum Account Size	The investment strategy shall be open for new business and firm must be able to provide significant capacity.
Performance	The investment strategy’s long- and near-term return and risk relative to passive indexes and appropriate peer universes will be evaluated.
Investment Philosophy/ Process Characteristics	The degree to which an investment manager’s strategy complements our other investment options. The goal is to ensure that our clients can choose from a balanced selection of investment philosophies and portfolio construction techniques (e.g. top-down vs. bottom-up, fundamental research vs. quantitative inputs, etc.). Additions to multi-manager investment strategies are made after considering the style and performance characteristics of existing managers.
Management Fees	The investment strategy must have a competitive fee structure.
Client Service	The firm should have the capabilities and track record of supporting similar investment strategies with The Principal or similar firms. The firm should also have experience with managing mutual funds (Investment Company Act of 1940) products.

The goal of this initial search process is to identify a short list of firms with many of the characteristics that we are seeking. These firms are then asked to complete a questionnaire for further evaluation. We do not have a specific goal for the number of firms that receive a questionnaire since we focus more on the quality of the managers, not the quantity. In recent years anywhere from three to ten firms make it to this stage.

The Right Questions

To gather detailed information about each candidate firm in a consistent format, we developed a manager selection questionnaire. The questionnaire focuses on four key aspects of the firm and product: organization, investment philosophy and process, resources and performance.

Key Factors	Key Issues
Organization	We evaluate the following key elements of an efficient and successful investment management organization: stable firm ownership, sound capital structure and financial condition, clear business objectives, capable leadership, well-defined lines of decision-making authority and responsibility, employee compensation structure, industry reputation, clear succession planning, regulatory record, future asset capacity, trading capabilities, and experienced and talented investment staff.
Investment Philosophy and Process	We evaluate the following key elements of a valid and well-defined investment approach: a clearly identified, rational and persistent market anomaly or inefficiency, unique sources of information or proprietary information processing models, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.
Resources	We evaluate the state of current and proposed resources supporting the investment process including the quality and depth of fundamental and/or quantitative research, the level of client service and marketing support, and the adequacy of information management, compliance and trading systems.
Performance	We evaluate the candidate's historical excess returns and risks relative to a suitable peer universe, a passive index, and competing firms over near- and long-term time horizons.

Only Premier Investment Managers Will Do

It is important to note that three of the four key areas, organization, investment philosophy and process, and resources are analyzed subjectively from a forward-looking perspective. In other words, evaluations in these areas focus on the firm's ability to add value in the future given the state of its existing organization, the soundness of its investment philosophy and process, and the depth and quality of its resources.

In contrast, evaluations of performance are based on historical levels of excess return and risk relative to suitable peer universes and passive indexes. The purpose of analyzing historic investment performance is to objectively measure whether the firm has delivered acceptable and consistent investment results over time.

The Right Decisions

A selection committee is responsible for reviewing the questionnaires and evaluating each candidate. The committee will then meet to compile the candidate scores and select the finalist candidates for formal interviews and presentations. In some situations, one or more members of the committee may choose to visit the offices of candidates before a final recommendation is made.

The selection committee meets to finalize the firm recommendation, subject to the successful negotiation of the management and fee agreements. Next we negotiate agreements, manage the transition process, and develop detailed investment guidelines for the new portfolio.



Rigorously Monitored

Keeping the Right Investment Managers

Our Investment Manager Monitoring Policy is in place to establish a rational and disciplined framework for managing our existing investment manager relationships. By designing and implementing a systematic decision-making process, we can improve the quality and timeliness of our manager retention and termination decisions. This helps reduce the high costs associated with reactionary or ad hoc actions.

Our stringent policies are crucial to successful, long-term asset management relationships.

Our Investment Manager Monitoring Policy embodies certain principles that are crucial to successful, long-term asset management relationships. These include:

- **Clear Mandates** – performance goals and objectives are clearly identified and agreed to by our staff and the investment manager in advance.
- **Active and Timely Communication** – regular communication between our staff and the investment manager is essential. Responses to performance or organizational issues must be timely, appropriate and consistent.
- **Long Time Horizon** – performance evaluations are conducted over multi-year time horizons, which provides a more accurate depiction of investment manager skill.
- **Flexibility** – we have the flexibility under the policy to use our discretion and reasoned judgment to address unique events and circumstances.

The objective of our comprehensive monitoring process is to identify on a timely basis any adverse changes in the investment manager's organization, investment process, or performance results. Once these adverse changes have been identified, the monitoring process dictates the timing and manner of a response from The Principal.

We meet in-person with each investment manager not less than once every 12 months to discuss business issues, investment strategy and performance results. In addition, we visit the investment manager's primary place of business not less than once every 24 months.

We develop investment guidelines for each investment manager, typically when the manager is hired. The guidelines summarize the manager's investment strategy, provide a description of eligible investments, and outline any other portfolio restrictions or constraints. Each investment manager's guidelines also include specific return and risk objectives relative to passive style indexes, Morningstar peer groups, or both. Finally, the guidelines include reporting requirements for performance data, portfolio or market commentary, and any compliance information.

Monitoring Success

To monitor the process, we use ongoing qualitative and quantitative assessments. The manager selection decision relies heavily on the subjective review of qualitative factors relating to the firm's organization, investment philosophy and process, and resources.

The most common and important form of quantitative assessment is the periodic review of historical investment performance. Quantitative tools can also be used to analyze such items as the level of active management risk, style/sector consistency, up market/down market performance, and sources of value-add (via attribution analysis).

What Criteria Do We Consider When Evaluating Investment Options?

We analyze investment options both qualitatively and quantitatively.

Qualitative Analysis Here is where we look at an investment manager's investment philosophy and process, and resources. This evaluation helps to ensure an investment manager retains the same organizational and investment characteristics that were the basis for our original selection decision. Analyzing qualitative factors is perhaps the most critical aspect of the monitoring process because the factors we analyze can help determine the investment manager's ability to add value in the future.

Quantitative Analysis In contrast, our quantitative analysis focuses on the elements of the investment option that can be measured objectively and compared to certain benchmarks or peer groups, such as historical performance. Quantitative assessments are necessary because they provide valuable insight into the level of historical investment performance of the investment option.

How are Investment Managers Scored?

Based on our qualitative analysis, we score each investment manager every quarter. Likewise, we provide a quantitative score for each investment option on a quarterly basis. Our methodology scores them independently on a scale of 1.0-4.0 (with 1.0 being the best).

The scores, grades, and explanations are as follows:

Scores	Grades	Explanation
1.00 – 2.50	Favorable	Meeting or exceeding our expectations
2.51 – 3.00	Neutral	Not exceeding expectations but still in good standing
3.01 – 4.00	Less Favorable	Significantly below our expectations

Qualitative Score

Organization, Investment Philosophy and Process, and People

This part of the evaluation focuses on the investment manager's ability to add value in the future given the state of their existing organization, the soundness of their investment philosophy and process, and the depth and quality of their people. For multi-manager investment options, the Qualitative Score is based on a weighted average of scores for all managers. End of quarter market values are used to derive the appropriate advisor weights.

Qualitative Score		
30% Organization	50% Investment Philosophy and Process	20% People

Quantitative Score

Performance

The purpose of analyzing historical performance is to determine whether an investment option has delivered top-tier investment results and the manager(s) that comprise the investment option have demonstrated skill. We score an investment option's gross performance based on its three- and five-year risk-adjusted excess returns relative to a passive index (i.e. information ratio), three- and five-year Morningstar percentile rankings within an appropriate peer group, and three-year consistency of performance relative to a passive index¹. For example, if ABC Investment Option is a large growth investment option, we'll typically compare it to the Russell 1000 Growth Index for a passive index. We'll then compare it to the Morningstar Large Growth Category for peer group comparisons.

If the investment option's performance tenure is less than three years, the firm's actual performance may be combined with the manager's composite performance history in order to be scored.

Quantitative Score				
35% Risk-Adjusted Passive Index Performance		50% Peer Performance		15% Consistency
50% Three-year Returns	50% Five-year Returns	50% Three-year Returns	50% Five-year Returns	100% Three-year Returns

¹ If an investment option has at least a three-year performance record, but not a five-year performance record, we will weight 50% of the historical performance score based on three-year performance and 50% based on inception-to-date performance. If an investment option does not have at least a three-year performance record, we will weight 100% of the historical performance score based on inception-to-date performance. However, an investment option must at least have 12 months of performance to be scored.

The Right Course of Action

Depending on the significance of an event, we can choose one of three possible courses of action:

- **No Action** – Circumstances or events resulting in this course of action are generally not considered serious. There is no significant adverse impact on the firm or its investment process. Examples include the loss of a single large client, the loss of staff not deemed to be critical to the investment process, or minor violations of guidelines that have been resolved.
- **Watch List** – Investment Options may be placed on the Watch List for Qualitative reasons (firm or process), Quantitative reasons (performance) or both. The Watch List reflects a Cautionary Status that has triggered a more in-depth review of an investment option based on the actions of one or more of its managers. This action signifies that our diligence process has uncovered a concern with the investment option that requires further monitoring. We further define the triggers for Qualitative and Quantitative Watch List immediately below.
 - **Qualitative** – Qualitative concerns that trigger Watch List status typically arise from a significant event that is a major change in the organization, the investment process, or a compliance issue. Examples of reasons a manager may be placed on the Qualitative Watch List include replacement of the portfolio management team, a sudden change in investment process, or significant compliance and ethical concerns at the firm or strategy level.
 - **Quantitative** – Watch List Status will result if long-term performance is significantly below our expectations. Performance results of the investment option are used to determine Quantitative Watch List status.

Being placed on the Watch List does not necessarily mean that the investment option is no longer an appropriate investment option. Instead, this status is meant to communicate to the investment manager our increased level of concern about a particular issue or event, which if left unresolved, could endanger the relationship.

An investment option is placed on the Watch List for a length of time that will not exceed twelve months. Within thirty days of being placed on the Watch List, we will communicate with the relevant manager(s) to discuss the triggering issue or event. Specific steps that need to be followed to resolve the matter will be agreed upon with the manager.

If the investment option was on the Watch List for quantitative or performance concerns and the due diligence process determines removal from the Watch List is appropriate, the investment option may be placed on Probation until such time that the performance of the relevant manager(s) improves. The cautionary status of Probation may be assigned to an investment option for the following reasons:

- An investment option has been removed from the Quantitative Watch List because the due diligence process has determined that the manager(s) has made improvements in the short term that have the potential to be sustainable over the long term. However, long-term performance is still below our expectations and requires additional monitoring.

- An investment option has been removed from the Quantitative Watch List because the due diligence process has determined that the underperformance that led to Watch List status is explainable in light of the process used by the manager(s) based on the market environment at the time. However, long-term performance is still below our expectations and requires additional monitoring.
- A manager(s) is removed from an investment option due to performance reasons but the investment option's long-term performance is still below our expectations and requires additional monitoring. In this situation, the due diligence process recognizes that while removal of the underperforming manager(s) has the potential to improve performance, the long-term performance history still contains the manager(s) that have led to the underperformance.

The status of Probation is conferred on an investment option for an indefinite period of time. However, at any time while a manager is on Probation, the due diligence process may remove a manager(s). Probation status is lifted only after the investment option scores "Favorable" for one quarter based on the quantitative scoring criteria of the due diligence process, which focuses on three- and five-year results.

- **Immediate Termination** – Under extraordinary circumstances, we may choose to recommend termination of the sub-advisor relationship immediately without placing the firm on the Watch List. This course of action would only occur in situations where the survivability of the firm is in question, where the firm has materially deviated from its obligations, or in instances of company fraud, willful misconduct, or a violation of fiduciary duty that may or may not directly relate to its obligations to any of the member companies of the Principal Financial Group®.

The Watch List – What signs do we look for?	
Qualitative Signals	Quantitative Signals
<p>There are a variety of organizational or investment process-related events that may cause us to place an investment manager on our Watch List. The most common issues and events are:</p> <ul style="list-style-type: none"> • A change in the investment manager's ownership structure • A loss of key investment personnel • A major shift in the investment manager's investment philosophy • Significant changes in key aspects of the investment process (i.e. style drift, risk controls) • Client losses and/or declining assets under management • Compliance and investment guideline violations 	<p>Over short time periods, an unskilled manager can outperform a skilled manager simply due to luck. Over longer time periods, though, this short-term randomness diminishes and a more accurate picture of an investment manager's skill emerges. Accordingly, we use longer time periods – three and five years – to evaluate investment performance. For active investment strategies, an investment option is placed on the Watch List if the Investment Option Grade is "Less Favorable" for two of three consecutive quarters.</p> <div> <p>Note: To make sure we provide an accurate picture of a "newly" hired investment manager, they will be given an appropriate time frame (approximately two to three years) before placing the investment option on the Watch List for quantitative reasons. This will help to prevent unnecessary action immediately after hiring a new investment manager, and allow for evaluations over longer periods.</p> </div>

Watch List Update as of June 30, 2011

Placement on the Watch List is meant to convey a heightened sense of concern about a particular issue or event, which the due diligence team will work with the investment manager to attempt to resolve. Watch List status will not exceed 12 months.

Here is an update on each of the sub-advised investment options currently on the Watch List:

SmallCap Blend Separate Account – The SmallCap Blend Separate Account, sub-advised by Principal Global Investors, was placed on the Watch List effective 6/30/2011 for qualitative reasons due to a personnel change. Principal Global Investors informed us that effective 6/28/2011, Brian Pattinson was named co-portfolio manager of this investment option, joining existing co-portfolio manager Phil Nordhus. Concurrently, Tom Morabito (who had served as co-portfolio manager) left Principal Global Investors to pursue other opportunities. This investment option is also on Probation for quantitative reasons, having been moved from the quantitative Watch List to probationary status as of 3/31/2011.

SmallCap Growth Separate Account – The SmallCap Growth Separate Account, sub-advised by Principal Global Investors, was placed on the Watch List effective 6/30/2011 for qualitative reasons due to a personnel change. Principal Global Investors informed us that effective 6/28/2011, Brian Pattinson was named co-portfolio manager of this investment option, joining existing co-portfolio manager Phil Nordhus. Concurrently, Tom Morabito (who had served as co-portfolio manager) left Principal Global Investors to pursue other opportunities. This investment option is also on Probation for quantitative reasons, having been moved from the quantitative Watch List to probationary status as of 3/31/2011.

LargeCap Growth Separate Account – The LargeCap Growth Separate Account, sub-advised by Columbus Circle Investors (CCI), was placed on the Watch List effective 3/31/2011 after receiving a quantitative grade of “Less Favorable” for two out of three consecutive quarters under the new quantitative guidelines of the due diligence process. CCI became the sub-advisor for LargeCap Growth in December 2004, and from that point forward until 2009, LargeCap Growth delivered competitive performance. However, in 2009 CCI’s discipline of positive momentum and positive surprise fell deeply out of favor, and performance suffered. Due to the poor showing in 2009—and the fact that strong historical performance recently rolled off LargeCap Growth’s three- and five-year performance returns—LargeCap Growth’s quantitative grade declined, triggering the investment option’s addition to the Watch List.

SmallCap Value Separate Account – The SmallCap Value Separate Account, sub-advised by Principal Global Investors, was placed on the Watch List effective 9/30/2010 after receiving a quantitative grade of “Less Favorable” for three out of four consecutive quarters under the previous quantitative guidelines of the due diligence process. Due in part to weak stock selection, this investment option struggled for an extended period prior to being placed on the Watch List. We are conducting an in-depth review with Principal Global Investors in order to fully understand the reasons for the underperformance. In addition, effective 6/28/2011, Principal Global Investors announced that Brian Pattinson and Phil Nordhus were named co-portfolio managers of this investment option. Concurrently, existing portfolio manager Tom Morabito left Principal Global Investors to pursue other opportunities. As a result of these personnel changes, this investment option was added to the qualitative Watch List effective 6/30/2011.

The following investment options, while not on the quantitative Watch List, are currently assigned Probation status. The due diligence team will continue to closely monitor these investment options.

Disciplined LargeCap Blend Separate Account, sub-advised by Principal Global Investors
Inflation Protection Separate Account, sub-advised by BlackRock Financial Management
Government & High Quality Bond Separate Account, sub-advised by Edge Asset Management, Inc.
International Growth Separate Account, sub-advised by Principal Global Investors
LargeCap Value I Separate Account, sub-advised by Thompson, Siegel & Walmsley (TS&W) and Herndon Capital Management
LargeCap Value III Separate Account, sub-advised by AllianceBernstein/Westwood
SmallCap Blend Separate Account, sub-advised by Principal Global Investors
SmallCap Growth Separate Account, sub-advised by Principal Global Investors
SmallCap Growth II Separate Account, sub-advised by Emerald/Essex



Due Diligence Process

Courses of Action Summary

Here is an update of the courses of action affecting active investment options on our platform that have occurred under the due diligence process over the past five years.

Investment Advisor	Investment Option	Action	Details
Principal Global Investors	Bond and Mortgage Separate Account	Placed on Watch List for quantitative reasons.	September 2008 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	September 2009 - We informed clients that due to improved performance which was consistent with our expectations, we were removing this investment option from the Watch List.
Principal Global Investors	Disciplined LargeCap Blend Separate Account	Placed on Watch List for quantitative reasons.	June 2010 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	June 2011 - We informed clients that this investment option would be removed from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
Edge Asset Management	Government & High Quality Bond Separate Account	Placed on Watch List for quantitative reasons.	September 2008 - We informed clients that underperformance of this investment option, sub-advised by Principal Global Investors, triggered placement on the Watch List.
		Informed clients that Edge Asset Management would take over portfolio management responsibilities.	March 2009 - We informed clients that effective April 9, 2009, Edge Asset Management would take over portfolio management responsibilities from Principal Global Investors.
		Removed from Watch List.	June 2009 - We informed clients that due to the successful transition of portfolio management duties from Principal Global Investors to Edge Asset Management, we removed this investment option from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
Principal Global Investors	High Quality Intermediate-Term Bond Separate Account	Placed on Watch List for quantitative reasons.	September 2008 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	September 2009 - We informed clients that due to improved performance which was consistent with our expectations, we were removing this investment option from the Watch List.
BlackRock	Inflation Protection Separate Account	Placed on Watch List for quantitative reasons.	June 2008 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Replaced Principal Global Investors with BlackRock. Removed from Watch List.	December 2008 - Following an in-depth review with Principal Global Investors, we determined it prudent to change the investment manager for this investment option. As of December 31, 2008, BlackRock replaced Principal Global Investors as sub-advisor for this investment option. Due to the new manager, we removed this investment option from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.

Investment Advisor	Investment Option	Action	Details
Principal Global Investors	International Emerging Markets Separate Account	Placed on Watch List for qualitative reasons.	April 2007 - Principal Global Investors informed us that Michael Marusiak, co-portfolio manager for this investment option had left the firm to pursue another opportunity. The other portfolio manager, Michael Reynal, remained on the portfolio. We notified clients that the investment option would be placed on the Watch List.
		Informed clients that this investment option would remain on the Watch List.	June 2007 - Principal Global Investors notified us that Mihail Dobrinov and Michael Ade were added as co-portfolio managers to join existing manager, Michael Reynal. Members of the Investment Services Group met with the portfolio management team since these changes were implemented. We were comfortable with the new members on the team and we didn't expect any changes to the investment philosophy and process. However, due to the recent changes, we wanted to monitor the interaction and decision-making process of the team going forward. Therefore, this investment option remained on the Watch List.
		Removed from Watch List.	September 2007 - The Investment Services staff continued to closely monitor this investment option. We remained comfortable with the new members of the portfolio management team. The investment philosophy and process remained consistent since the changes were made. Therefore, we removed this investment option from the Watch List.
Principal Global Investors	International Growth Separate Account	Placed on Watch List for quantitative reasons.	September 2009 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Watch List status extended.	September 2010 - Due to continued underperformance of this investment option, the Investment Services team conducted an in-depth review of Principal Global Investors and concluded that the historical attributes of this investment process should provide an environment for the firm to return this investment option to acceptable performance. However, because we have not yet seen improved performance, we do not feel it prudent to remove this investment option from the Watch List. Therefore, the Watch List status was extended for an additional six months allowing us to take a longer look at the contributions the recently-added portfolio manager, Mark Nebelung, may add to the team.
		Removed from Watch List.	March 2011 - We informed clients that this investment option would be removed from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
Barrow Hanley/Causeway	International Value I Separate Account	Placed on Watch List for qualitative reasons.	April 2010 - Since its inception, the co-investment managers of the satellite portion of this investment option were AXA Rosenberg and Causeway Capital Management. We informed clients that this investment option was being placed on the Watch List after AXA Rosenberg revealed that a coding error may have affected the flow of information between its risk model and portfolio optimization process. AXA Rosenberg was not certain whether client portfolios were impacted positively or negatively by the coding error and hired an outside consultant to review the situation. During their review process, we felt it prudent to place the investment option on the Watch List for further monitoring. Note: The other two managers for this core-satellite investment option - Causeway and Principal Management Corporation (which manages the investment option's "core" portfolio) - remain in good standing.
		Replaced AXA Rosenberg with Barrow Hanley. Removed from the Watch List.	August 2010 - During the period since AXA Rosenberg announced a coding error, they experienced changes in key investment personnel and the firm's assets under management declined rapidly due to client departures. Following our in-depth review of the situation, we determined it prudent to replace AXA Rosenberg. We conducted a search for a new co-investment manager and ultimately selected Barrow Hanley. Because our initial placement of this investment option on the Watch List was triggered solely by AXA Rosenberg, once their replacement was in place we removed this investment option from the Watch List.

Investment Advisor	Investment Option	Action	Details
Columbus Circle Investors	LargeCap Growth Separate Account	Placed on Watch List for quantitative reasons.	March 2011 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account	Placed on Watch List for quantitative reasons.	September 2008 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	March 2009 - We informed clients that we were removing this investment option from the Watch List due to improved performance consistent with our expectations.
TS&W/Herndon	LargeCap Value I Separate Account	Placed on Watch List for quantitative reasons.	December 2010 - We informed clients that underperformance of this investment option, sub-advised by UBS and TS&W, triggered placement on the Watch List.
		Removed from Watch List.	June 2011 - UBS, co-sub-advisor on this investment option since its inception, had been primarily responsible for its underperformance. In late June 2011, we informed clients that Herndon Capital Management would replace UBS as co-sub-advisor (along with TS&W) and the investment option would be removed from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
AllianceBernstein/ Westwood	LargeCap Value III Separate Account	Placed on Watch List for quantitative reasons.	June 2007 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	June 2008 - We informed clients that Westwood Management Corp. was going to be added as a second sub-advisor effective July 15, 2008. Their investment process complements the investment process of AllianceBernstein. We believed the combination of these two managers would improve the consistency of the overall portfolio. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
Principal Global Investors	SmallCap Blend Separate Account	Placed on Watch List for quantitative reasons.	March 2010 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	March 2011 - We informed clients that this investment option would be removed from the quantitative Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
		Placed on Watch List for qualitative reasons.	June 2011 - Principal Global Investors informed us that one of the portfolio managers, Tom Morabito, was departing and would be replaced by Brian Pattinson. Due to this personnel change, this investment option was placed on the Watch List for qualitative reasons and remains in Probation status for quantitative concerns.
Principal Global Investors	SmallCap Growth Separate Account	Placed on Watch List for quantitative reasons.	June 2009 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	June 2010 - We informed clients that due to improved performance, we were removing this investment option from the quantitative Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.
		Placed on Watch List for qualitative reasons.	June 2011 - Principal Global Investors informed us that one of the portfolio managers, Tom Morabito, was departing and would be replaced by Brian Pattinson. Due to this personnel change, this investment option was placed on the Watch List for qualitative reasons and remains in Probation status for quantitative concerns.
Emerald/Essex	SmallCap Growth II Separate Account	UBS removed as sub-advisor; option removed from Watch List.	June 2009 - We informed clients that we were removing UBS as sub-advisor from the investment option due to underperformance. The termination was expected to take place at the same time the core portfolio was added to the investment option. At the time, this option was removed from the Watch List. However, this investment option remains in Probation status until it receives a Favorable quantitative score pursuant to our due diligence process.

Investment Advisor	Investment Option	Action	Details
Principal Global Investors	SmallCap Value Separate Account	Placed on Watch List for quantitative reasons.	September 2010 - We informed clients that underperformance of this investment option triggered placement on the quantitative Watch List.
		Placed on Watch List for qualitative reasons.	June 2011 - Principal Global Investors informed us that one of the portfolio managers, Tom Morabito, was departing and would be replaced by Phil Nordhus and Brian Pattinson. Due to these personnel changes, this investment option was placed on the Watch List for qualitative reasons. It also remains on the quantitative Watch List, where it was placed as of September 2010.
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account	Placed on Watch List for quantitative reasons.	March 2009 - We informed clients that underperformance of this investment option triggered placement on the Watch List.
		Removed from Watch List.	December 2009 - We informed clients that due to improved performance which was consistent with our expectations, we were removing this investment option from the Watch List.
Edge Asset Management	Strategic Asset Management (SAM) Separate Accounts	Placed on Watch List for qualitative reasons.	April 2009 - We informed clients that we were placing this investment option on the Watch List due to the expected departure of both Randy Yoakum and Michael Meighan.
		Removed from Watch List.	June 2009 - We informed clients that in May 2009 Randy Yoakum ended his employment with Edge. At the same time, Dirk Laschanzky joined Edge as co-portfolio manager for the SAM investment options. We informed clients that Michael Meighan and Dirk Laschanzky would serve as co-portfolio managers until Michael leaves the firm at the end of 2009. Due to the succession plan we removed these investment options from the Watch List.
Principal Real Estate Investors	U.S. Property Separate Account	Placed on Watch List for qualitative reasons.	September 2008 - We informed clients that we were placing this investment option on the Watch List due to the implementation of withdrawal limitations by Principal Life Insurance Company. We believed the decision to delay the payment of withdrawal requests would allow the Separate Account to continue to be managed appropriately for the benefit of all investors. However, given the need to delay the payment of withdrawal requests, we felt it prudent to place the investment option on the Watch List.
		Removed from Watch List.	September 2009 - While monitoring over the past year, we felt that Principal Real Estate Investors had made prudent decisions in managing this investment option over the past year. Therefore, we informed clients that we were removing this investment option from the Watch List.



Investment Manager Profiles

Our selection process provides a prestigious offering of investment managers. For your plan participants, it means investing with confidence, knowing they have access to broad choices and more options for diversification. For you, it means choosing with confidence, knowing your plan's investment lineup offers strong performance, a variety of management styles, and access to some of the industry's top investment talent. Here is a listing of investment managers available to you.

Investment Advisor	Information
	<p>AllianceBernstein is one of the world's largest investment management firms. As of December 31, 2010, AllianceBernstein managed \$478 billion (US) in assets under management. They offer an extensive selection of global equity services based on their long-standing expertise in growth and value management, as well as a wide array of fixed-income and style-blend products. All of these services draw on the intensive research efforts of their 200-plus fundamental and quantitative buy-side equity, fixed-income and economic analysts. Their buy-side analysts are part of a larger research complement that—along with the firm's highly regarded sell-side arm, all sharing a culture in which insightful research is paramount.</p> <ul style="list-style-type: none"> • LargeCap Value III Separate Account • SmallCap Growth I Separate Account
	<p>American Century Investments is a full-service investment management firm with an expanding range of investment products and services. Founded in 1958, and with more than \$100 billion in assets under management as of December 31, 2010, American Century is committed to being a premier investment manager dedicated to the pursuit of solid, long-term performance for clients worldwide. American Century offers a broad spectrum of mutual funds, with solid results across multiple disciplines and multiple fund classes suitable for a variety of investment products. The majority of domestic equity management and equity trading is conducted at the company's headquarters in Kansas City, Missouri. American Century office in New York oversees the company's global equity management while its office in Mt. View, California oversees its fixed income, quantitative and asset allocation investment products. The firm has recently expanded to include international distribution via offices in London and Hong Kong.</p> <ul style="list-style-type: none"> • LargeCap Growth II Separate Account
<p>BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.</p>	<p>Barrow, Hanley, Mewhinney & Strauss (Barrow Hanley), founded in Dallas in 1979, is one of the largest value-oriented investment managers in the U.S. with more than \$60 billion in assets under management as of December 31, 2010. Barrow Hanley provides domestic and international equity, fixed income, and balanced investment management services. In all strategies, the firm seeks to exploit market inefficiencies through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis.</p> <ul style="list-style-type: none"> • International Value I Separate Account* • MidCap Value III Separate Account

*Only available on defined benefit contracts.

	<p>BlackRock is a premier provider of global investment management, risk management and advisory services. As of December 31, 2010, the firm managed \$3.56 trillion across equity, fixed income, real estate, liquidity and alternative investments. Their clients include corporate, public and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions and individuals worldwide.</p> <ul style="list-style-type: none"> • Inflation Protection Separate Account
 <p>BROWN ADVISORY</p>	<p>Brown Advisory (Brown) was founded in 1993 as an investment management arm of Alex Brown & Sons, an investment bank founded in 1800. When Alex Brown & Sons was acquired by Bankers Trust, Brown became independently owned through an employee-led buyout in 1998. The firm is headquartered in Baltimore, with offices in Washington, Boston and London. Brown is employee-owned, and each of the 250 employees has an equity interest in the firm. With nearly \$22 billion in client assets as of December 31, 2010, the firm and its affiliates strive to meet each investor's unique requirements through a broad array of investment styles and asset classes, including domestic equities, international equities, "green" equities, fixed income, private equity, real estate and other alternative assets.</p> <ul style="list-style-type: none"> • LargeCap Growth I Separate Account • SmallCap Growth I Separate Account
 <p>CAUSEWAY CAPITAL MANAGEMENT LLC</p>	<p>Causeway Capital Management, LLC manages nearly \$12.2 billion in global equity assets as of December 31, 2010. The firm's capabilities encompass international, global and emerging-market stocks worldwide. For the International Value I* portfolio, Causeway uses an investment philosophy focused on independent fundamental research and superior stock selection.</p> <ul style="list-style-type: none"> • International Value I*
	<p>ClearBridge Advisors (ClearBridge) was introduced in December 2005 following Legg Mason's transaction with Citigroup, but traces back its asset management expertise more than 45 years to several prominent firms, including Smith Barney Asset Management, Davis Skaggs Investment Management and Salomon Brothers Asset Management. (Salomon Brothers Asset Management and Smith Barney Asset Management are service marks of Citigroup, Inc.) ClearBridge benefits from the formidable strength of the Legg Mason organization, while continuing to operate with investment independence — maintaining its own investment strategies, philosophies and investment decision-making authority. ClearBridge is the largest equity manager of Legg Mason Inc. (NYSE: LM), managing approximately \$56.7 billion in client assets as of December 31, 2010. ClearBridge offers the services of experienced portfolio managers who focus exclusively on equities covering all major market capitalizations, across a wide range of equity-focused disciplines. ClearBridge combines research-driven fundamental investing with the insights of its veteran portfolio managers to seek long-term competitive portfolio performance for its institutional and retail clients. In many cases, portfolio managers who built a portfolio's performance record over several decades continue to manage those assets today.</p> <ul style="list-style-type: none"> • LargeCap Blend II Separate Account
 <p>Columbus Circle Investors</p>	<p>Principal Global Investors offers expertise in the management of growth equity portfolios through its subsidiary, Columbus Circle Investors (CCI). With \$16.6 billion in assets under management as of December 31, 2010, CCI provides a strong history in growth-oriented equity investment management with a consistent emphasis on independent, fundamental research and bottom-up stock selection. CCI's investment philosophy is simple and straightforward and based on the premise that companies doing better than expected will have rising securities prices, while companies producing less than expected results will not.</p> <ul style="list-style-type: none"> • LargeCap Growth Separate Account • MidCap Growth Separate Account • SmallCap Growth I Separate Account

*Only available on defined benefit contracts.



Dimensional Fund Advisors was founded in April 1981 to provide institutional investors with access to asset classes which provide the expectation of superior risk-adjusted returns. Dimensional has grown into a global organization that is headquartered in Austin, Texas, with offices in Santa Monica, Chicago, London, Sydney and Vancouver. The firm managed \$206.4 billion in assets as of December 31, 2010, for a wide variety of institutional clients and clients of registered investment advisors. Dimensional Fund Advisors is a private limited partnership owned primarily by directors and employees.

- International SmallCap Separate Account
- SmallCap Value II Separate Account



Edge Asset Management has been a pioneer in the field of actively managed asset allocation investment options, and has more than \$19.4 billion in asset allocation assets under management as of December 31, 2010. Its primary areas of investment expertise are target-risk funds, large-cap equities, and taxable fixed-income securities. The firm's five-member Asset Allocation Team guides the Principal SAM Portfolios. Based in Seattle, Washington, the firm has a heritage dating back to 1939, when it launched one of the first 50 mutual funds in the U.S.

- Capital Appreciation Separate Account
- Equity Income Separate Account
- Government & High Quality Bond Separate Account
- Income Separate Account
- SAM Balanced Separate Account
- SAM Conservative Balanced Separate Account
- SAM Conservative Growth Separate Account
- SAM Flexible Income Separate Account
- SAM Strategic Growth Separate Account



Emerald Advisers, Inc. is an S.E.C. Registered Investment Advisor incorporated in November 1991. Emerald Advisers is a subsidiary of Emerald Asset Management, incorporated in August 1991. Emerald Asset Management is wholly-owned by Emerald employees and one outside minority shareholder. Emerald Advisers provides professional investment advisory services to institutional investors, high net worth individuals and the general public through separate account management and The Forward Emerald Mutual Funds. As of December 31, 2010, Emerald Advisers managed a total of \$1.6 billion in assets under management.

- SmallCap Growth II Separate Account



Essex Investment Management Company, LLC (Essex) specializes in growth equity investments. Essex manages portfolios for corporations, endowments, foundations, municipalities, public funds, Taft-Hartley accounts and private clients. Essex offers a range of growth equity strategies and employs proprietary fundamental research combined with active portfolio management. As of December 31, 2010, Essex managed a total of nearly \$1.5 billion in assets under management.

- SmallCap Growth II Separate Account



Fidelity (Pyramis Global Adv) is one of the world's largest providers of financial services, with custodied assets of nearly \$3.5 trillion, including managed assets of \$1.6 trillion as of December 31, 2010. Fidelity offers investment management, retirement planning, brokerage, and human resources and benefits outsourcing services to more than 20 million individuals and institutions as well as through 5,000 financial intermediary firms.

- International I Separate Account



Building on Goldman Sachs' tradition of excellence since 1869, Goldman Sachs Asset Management, L.P. serves the investment management needs of preeminent institutions and individual investors worldwide. Goldman Sachs Asset Management offers the resources of a large, global firm and the specialization of a boutique with independent investment teams, while seeking to deliver strong performance over full market cycles through a team-driven, research-intensive approach to investing. As of December 31, 2010, Goldman Sachs Asset Management, L.P.'s (GSAM L.P.) assets under management were \$717.1 billion.

- MidCap Value I Separate Account

	<p>Herndon Capital Management, LLC (HCM) is an institutional investment management firm specializing in large- and mid-capitalization equity strategies. Founded and registered with the SEC in 2001, the firm is an affiliate of Atlanta Life Financial Group (ALFG), a 106-year-old financial services firm. The firm began managing assets in June 2002. As of March 31, 2011, HCM had a total of \$3.28 billion in assets under management.</p> <ul style="list-style-type: none"> • LargeCap Value I Separate Account
	<p>J.P. Morgan Asset Management is one of the largest and most comprehensive investment management firms. As of December 31, 2010, the firm managed over \$1 trillion in global assets under management. J.P. Morgan can offer the breadth and depth of the firm's global research, with career analysts located throughout the world.</p> <ul style="list-style-type: none"> • SmallCap Value I Separate Account • High Yield I Separate Account
	<p>Jacobs Levy Equity Management, a registered investment adviser founded in 1986, is widely recognized as a leading provider of quantitative equity strategies for institutional clients. Building on the pioneering research of founders Bruce Jacobs and Ken Levy, the firm uses a dynamic, forward-looking, multidimensional investment approach designed to detect profit opportunities in U.S. equities. Insights from this approach are used to construct risk-managed portfolios engineered with the objective of providing consistent value-added performance. Jacobs Levy manages equity portfolios for a prestigious global roster of corporate pension plans, public retirement systems and endowments/foundations.</p> <ul style="list-style-type: none"> • MidCap Growth III Separate Account
	<p>LA Capital is an employee-owned firm that employs a quantitative approach for security selection and portfolio management. As of December 31, 2010, LA Capital manages approximately \$6.69 billion in assets. Portfolios are tailored to meet the unique return and risk objectives of each assignment. The investment team developed the investment process at Wilshire Asset Management where they worked together for sixteen years beginning in 1986. In March 2002, the team purchased the business from Wilshire Associates to set up an independent investment boutique.</p> <ul style="list-style-type: none"> • MidCap Value I Separate Account • SmallCap Value II Separate Account
	<p>Mellon Capital Management Corporation (Mellon Capital) has been managing assets since August of 1983. Mellon Capital is a wholly-owned indirect subsidiary of The Bank of New York Mellon Corporation, a publicly traded company. As of December 31, 2010, Mellon Capital managed approximately \$208.5 billion in assets.</p> <ul style="list-style-type: none"> • Bond Market Index Separate Account • MidCap Growth III Separate Account
	<p>Montag & Caldwell has been offering investment management services since its inception in 1945, and is best known for its disciplined, high-quality large-cap growth approach. Montag & Caldwell's mission is to provide superior investment returns and the highest quality service to its clients. The cornerstone of Montag & Caldwell's success lies in the consistency of its people, philosophy and process. Montag & Caldwell has over 30 years' experience in the management of mutual funds, and currently sub-advises fund portfolios under its large-cap growth discipline for both domestic and international clients. As of December 31, 2010, Montag & Caldwell had nearly \$15 billion in client assets under management.</p> <ul style="list-style-type: none"> • LargeCap Growth II Separate Account
	<p>Morley Financial Services, Inc. was founded in 1982 and is one of the nation's oldest stable value managers. Morley provides stable value investment services to corporate, government and Taft-Hartley pension plans through collective funds and separately managed portfolios, and offers advisory services to banks and other financial institutions. Morley oversees more than \$14 billion in stable value and fixed-income assets as of December 31, 2010.</p> <ul style="list-style-type: none"> • Stable Value Fund**

**Only available on defined contribution contracts.

	<p>Formed in 1939, Neuberger Berman is a leading provider of global equity, fixed income and alternative investment solutions to institutions and individuals through customized separately managed accounts and funds. As of December 31, 2010, the firm has \$180 billion in assets under management. The firm's assets under management include about 50% in core and specialty fixed-income and liquidity portfolios, about 40% in a broad range of equity portfolios, and about 10% in alternative investment products including hedge funds and private equity funds.</p> <ul style="list-style-type: none"> • High Yield I Separate Account
	<p>PIMCO, which is headquartered in Newport Beach, CA, is a leading global institutional money manager specializing in fixed-income investments. The firm managed \$1.2 trillion in assets as of December 31, 2010. PIMCO's fixed-income strategies are designed to outperform benchmark indices over the long term. Clients include corporate pension plans, foundations, endowments, public retirement plans, corporate treasury departments, governments, high-net-worth families and retail investors. In addition to being one of the largest active fixed-income managers in the world, PIMCO serves its global client base from offices in New York, Singapore, Tokyo, London, Sydney, Munich, Toronto and Hong Kong.</p> <ul style="list-style-type: none"> • Core Plus Bond I Separate Account
<p>Principal Financial Advisors, Inc.</p>	<p>Principal Financial Advisors, Inc. (Principal Financial Advisors) is a registered investment adviser and member company of the Principal Financial Group® (The Principal®). As of December 31, 2010, Principal Financial Advisors managed nearly \$6 billion in assets for defined benefit and defined contribution plans. Principal Financial Advisors takes a long-term, strategic approach using a variety of asset classes including U.S. fixed income, U.S. equities, international equities, and real estate when constructing its portfolios for defined benefit plans. Principal Financial Advisors utilizes the separate accounts available through Principal Life Insurance Company. In its advisory function to Principal Life Insurance Company, Principal Financial Advisors manages the Bond Emphasis and Stock Emphasis Balanced Separate Accounts and the Total Market Stock Index Separate Account.</p> <ul style="list-style-type: none"> • Bond Emphasis Balanced Separate Account • Stock Emphasis Balanced Separate Account • Total Market Stock Index Separate Account
	<p>Principal Global Investors managed \$47.8 billion in global equity assets as of December 31, 2010. The firm's capabilities encompass large-cap, mid-cap and small-cap stocks in developed and emerging equity markets worldwide. Principal Global Investors draws on a unified investment philosophy focused on independent fundamental research and superior stock selection. Principal Global Investors is a member of the Principal Financial Group®.</p> <ul style="list-style-type: none"> • Bond and Mortgage Separate Account • Disciplined LargeCap Blend Separate Account • Diversified International Separate Account • High Quality Intermediate-Term Bond Separate Account • International Emerging Markets Separate Account • International Equity Index Separate Account • International Growth Separate Account • International SmallCap Separate Account • LargeCap S&P 500 Index Separate Account • LargeCap Value Separate Account • MidCap Blend Separate Account • MidCap Value III Separate Account • MidCap S&P 400 Index Separate Account • Money Market Separate Account*** • Principal LifeTime Separate Accounts** • Short-Term Bond Separate Account • SmallCap S&P 600 Index Separate Account • SmallCap Blend Separate Account • SmallCap Growth Separate Account • SmallCap Value Separate Account • Ultra Long Bond Separate Account*

*Only available on defined benefit contracts.

**Only available on defined contribution contracts.

***R rate levels are closed to new investors.

	<p>Principal Real Estate Investors is the dedicated real estate group of Principal Global Investors and managed \$34.7 billion in commercial real estate assets as of December 31, 2010. The firm's capabilities include commercial mortgage-backed securities, real estate equity securities and a broad range of private market real estate equity and debt alternatives.</p> <ul style="list-style-type: none"> • Real Estate Securities Separate Account • U.S. Property Separate Account
	<p>Schroders is a premier asset management firm with approximately \$307.9 billion in assets under management as of December 31, 2010. The firm manages a diverse global range of strategies including equities, fixed income, multi-asset and alternatives. Schroders maintains a high level of commitment to research and investment management. Founded in 1804, Schroders has more than 200 years of experience in world financial markets. Schroders benefits from the stability and support of quasi-private ownership as well as from the transparency and accountability of public listing.</p> <ul style="list-style-type: none"> • International I Separate Account
	<p>Spectrum Asset Management offers specialized expertise in the management of preferred securities. Spectrum Asset Management is an affiliate of Principal Global Investors, with \$11.3 billion in assets under management as of December 31, 2010. The firm was founded in 1987 and is based in Stamford, Conn. Spectrum's clients include insurance companies, corporations, retirement plans, charitable trusts and financial institutions in the United States and abroad.</p> <ul style="list-style-type: none"> • Preferred Securities Separate Account
	<p>Thompson, Siegel & Walmsley, LLC (TS&W), based in Richmond, VA, is an investment advisor focused on value investing. TS&W is large enough to have a stable client base, but small enough to have a true boutique style investment process, with a focus on best-in-class client service. As of December 31, 2010, TS&W had a total of \$7.9 billion in assets under management.</p> <ul style="list-style-type: none"> • LargeCap Value I Separate Account
	<p>Founded in 1937, T. Rowe Price is a global investment management firm committed to providing investment management excellence, world class service and guidance to institutional and individual investors worldwide. T. Rowe Price provides a broad array of proprietary mutual funds, sub-advisory investment services and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. Headquartered in Baltimore, Maryland, T. Rowe Price has offices in Buenos Aires, Hong Kong, London, Canada, Japan, Sydney, Luxembourg, Stockholm, Singapore, Denmark, Amsterdam and Tokyo. As of December 31, 2010, T. Rowe Price managed more than \$482 billion in assets for some of the world's leading corporations, public retirement plans, foundations, endowments, and individual clients. The investment management services span the full range of U.S. and non-U.S. equity, fixed-income, and multi-asset class investment styles. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. The T. Rowe Price investment approach strives to achieve superior performance but is always mindful of the risks incurred relative to the potential rewards.</p> <ul style="list-style-type: none"> • LargeCap Blend II Separate Account • LargeCap Growth I Separate Account
	<p>Turner Investment Partners, Inc., ("Turner" or "Turner Investment Partners"), founded in 1990, is an employee-owned investment-management firm based in Berwyn, Pennsylvania. The firm was founded by Robert E. Turner, Mark D. Turner, and Christopher K. McHugh and began managing assets on March 5, 1990 (the effective date of its SEC registration). Turner has distributed equity to those professionals who make significant contributions to the success of their business. The firm's assets under management were \$17.9 billion as of December 31, 2010.</p> <ul style="list-style-type: none"> • MidCap Growth III Separate Account



Vaughan Nelson Investment Management, L.P. (Vaughan Nelson) is a Houston-based investment counseling firm staffed by experienced, research-oriented investment professionals. Founded in 1970, the firm's sole investment focus is managing equity and fixed income portfolios. Current clients include foundations, university endowments, public funds, corporate pension funds and individuals. As of December 31, 2010, assets under management were nearly \$8 billion; the firm's growth reflects strong client relationships based on solid performance, effective communication and the highest level of client service. Vaughan Nelson is one of the investment management affiliates operating within the NatixisGlobal Asset Management, L.P. umbrella. The firm operates independently with its own proprietary research process and investment team. The general partner and all of the limited partnership units of the firm are owned 100% by Natixis Global Asset Management US Group, L.P., based in Boston, Massachusetts.

- [SmallCap Value II Separate Account](#)



Westwood Management Corporation, founded in 1983 by Chairman and Chief Investment Officer Susan M. Byrne, is an investment advisory firm primarily serving the institutional marketplace. Westwood Management Corp. and Westwood Trust are wholly owned subsidiaries of Westwood Holdings Group, Inc., a publicly traded company on the NYSE. Westwood focuses on domestic value equities and manages approximately \$12.5 billion in total assets as of December 31, 2010. Westwood's mission statement is "Exceeding client expectations through exceptional performance and ethical conduct." Meeting clients' needs with integrity, efficiency and consistency is the cornerstone of the corporate culture. The firm's growth has been driven by exceptional risk-adjusted performance and excellent client service, which in turn have resulted in long-term relationships with satisfied clients.

- [LargeCap Value III Separate Account](#)

Key Terms to Know

- **Category Average** – Category Average is simply the average of the returns for all the funds in the given Morningstar Category.
- **Consistency** – Consistency is the percentage of months a manager out-performed an external standard such as a passive index.
- **Excess Return** – The difference between a manager's return and the return of an external standard such as a passive index.
- **Excess Standard Deviation** – Also known as "excess risk" or "tracking error," is defined as the standard deviation or volatility of excess returns.
- **Information Ratio** – A risk-adjusted measure commonly used to evaluate an active manager's investment skill. It is defined as the manager's excess return divided by the variability or standard deviation of the excess return. Information ratio considers both the level of excess return as well as the consistency in which the excess return was delivered to investors. Managers should strive for a positive information ratio, with higher numbers representing better results.
- **Percentile Rank** – Each investment's total returns are compared to other investments in the same Morningstar category for various time periods. Total returns are ranked on a scale from 1 to 100 where 1 represents the highest-returning 1% of investments and 100 represents the lowest-returning investment.

Disclosures

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754.

Money market investment options are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the investment option may seek to preserve a constant share or unit value, it is possible to lose money.

Values will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost.

Asset allocation/diversification does not guarantee a profit or protect against a loss.

High yield investment options are subject to greater credit risk associated with high yield bonds.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

Specialty investment options may experience greater volatility than funds with a broader investment strategy due to sector focus. These investment options are not intended to serve as a complete investment program by itself.

Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.

The US Property Separate Account is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed.

Each index-based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged result for the market segment the selected stocks or bonds represent. There is no assurance an index-based investment option will match the performance of the index tracked. S&P 500, S&P MidCap 400, S&P SmallCap 600 and S&P SuperComposite 1500 are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.

The International Equity Index investment option described herein is indexed to an MSCI index.

The Statement of Additional Information for the underlying mutual fund contains a more detailed description of the limited relationship MSCI has with Principal and any related investments.

Sub-Advised Investment Options include Separate Accounts available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

See Principal Stable Value Fund Participation Agreement for the full name of this investment option.



You Can be Confident

You can feel confident in the investment options you offer, and confident that you'll know how the managers of those options are performing. If you have questions about our due diligence process or this Quarterly Review, please contact your financial professional, client service associate, or your local representative of The Principal.



WE'LL GIVE YOU AN EDGE®